Consolidated Financial Statements of

ISLANDS TRUST

Year ended March 31, 2010

ISLANDS TRUST

Consolidated Financial Statements

Year ended March 31, 2010

Financial Statements

Management's Responsibility for the Consolidated Financial Statements	1
Auditor's Report	2
Consolidated Statement of Financial Position	3
Consolidated Statement of Operations	4
Consolidated Statement of Change in Net Financial Assets	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Islands Trust (the "Trust") are the responsibility of the Trust's management and have been prepared in compliance with legislation, and in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants. A summary of the significant accounting policies are described in note 1 to the consolidated financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods

The Trust's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by management.

The Trust, acting through its Audit Committee, meets with management and the external auditors to review the consolidated financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The consolidated financial statements have been audited by KPMG LLP, independent external auditors appointed by Trust Council. The accompanying Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Trust's consolidated financial statements.

Chief Administrator Officer

Treasurer

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800-730 View Street
Victoria BC V8W 3Y7
Canada

Telephone (250) 480-3500
Fax (250) 480-3539
Internet www.kpmg.ca

AUDITORS' REPORT

To the Trustees of Islands Trust and the Minister of Community and Rural Development

We have audited the consolidated statement of financial position of Islands Trust as at March 31, 2010 and the consolidated statements of operations, change in net financial assets and cash flows for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Victoria, Canada

May 14, 2010

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, Cooperative ("KPMGd International") a Swiss entity. KPMG Canada provides services to KPMG LLP

ISLANDS TRUST

Consolidated Statement of Financial Position

March 31, 2010, with comparative figures for 2009

	2010	2009 (Restated - note 2)
Financial assets:		
Cash and cash equivalents (note 3)	$ 3,045,703	$ 3,063,144
Accounts receivable (note 4)	42,739	83,262
	3,088,442	3,146,406
Financial liabilities:		
Wages and benefits payable	1,007,430	837,974
Accounts payable and accrued liabilities	240,614	357,229
Deferred revenue (note 5)	44,044	279,561
Employee benefit obligations (note 6)	217,451	220,041
Obligations under capital leases (note 7)	51,763	11,692
	1,561,302	1,706,497
Net financial assets	1,527,140	1,439,909
Non-financial assets:		
Tangible capital assets (note 8)	167,299	161,792
Prepaid expenses	957	29,891
	168,256	191,683
Accumulated surplus (note 9)	$ 1,695,396	$ 1,631,592

Commitments (note 12)
Contingent liabilities (note 13)

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Islands Trust:

Trustee

Trustee

ISLANDS TRUST

Consolidated Statement of Operations

Year ended March 31, 2010, with comparative figures for 2009

	Budget (unaudited - note 10)	2010	2009 (Restated - note 2)
Revenue:			
Property tax - general	$ 5,447,191	$ 5,447,191	$ 5,344,256
Property tax levy - Bowen Island Municipality	208,843	208,843	197,693
Provincial grant - operating	318,331	318,331	156,000
Fees and sales	160,000	89,458	128,788
Interest income	85,000	33,393	90,692
Other income	90,000	102,522	88,523
Total revenue	6,309,365	6,199,738	6,005,952
Expenses: (note 11)			
Council services	959,382	880,729	993,581
Local trust committee services	4,673,205	4,667,864	4,202,735
Trust fund services	603,447	587,341	511,453
Total expenses	6,236,034	6,135,934	5,707,769
Annual surplus	73,331	63,804	298,183
Accumulated surplus, beginning of year	1,631,592	1,631,592	1,333,409
Accumulated surplus, end of year	$ 1,704,923	$ 1,695,396	$ 1,631,592

The accompanying notes are an integral part of these consolidated financial statements.

ISLANDS TRUST

Consolidated Statement of Change in Net Financial Assets

Year ended March 31, 2010, with comparative figures for 2009

	Budget (unaudited - note 10)	2010	2009
Annual surplus	$ 73,331	$ 63,804	$ 298,183
Acquisition of tangible capital assets	(77,000)	(55,687)	(50,485)
Amortization of tangible capital assets	-	50,180	44,067
	(3,669)	58,297	291,765
Use (acquisition) of prepaid expenses	-	28,934	(3,161)
Change in net financial assets (net debt)	(3,669)	87,231	288,604
Net financial assets, beginning of year	1,439,909	1,439,909	1,151,305
Net financial assets, end of year	$ 1,436,240	$ 1,527,140	$ 1,439,909

The accompanying notes are an integral part of these consolidated financial statements.

ISLANDS TRUST

Consolidated Statement of Cash Flows

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009 (Restated - note 2)
Cash provided by (used in):		
Operating activities:		
Annual surplus	$ 63,804	$ 298,183
Items not involving cash:		
Amortization of tangible capital assets	50,180	44,067
Change in non-cash operating assets and liabilities:		
Accounts receivable	40,523	6,610
Accounts payable and accrued liabilities	(116,615)	51,653
Wages and benefits payable	169,456	60,621
Employee benefit obligations	(2,590)	39,245
Deferred revenue	(235,517)	252,515
Prepaid expenses	28,934	(3,161)
Net change in cash from operating activities	(1,825)	749,733
Capital activities:		
Acquisition of tangible capital assets	(9,896)	(50,485)
Net change in cash from capital activities	(9,896)	(50,485)
Financing activities:		
Payments on capital lease	(5,720)	(3,176)
Net change in cash from financing activities	(5,720)	(3,176)
Increase (decrease) in cash and cash equivalents	(17,441)	696,072
Cash and cash equivalents, beginning of year	3,063,144	2,367,072
Cash and cash equivalents, end of year	$ 3,045,703	$ 3,063,144
Supplemental cash flow information:		
Assets acquired under capital lease	$ 45,791	$ -

The accompanying notes are an integral part of these consolidated financial statements.

ISLANDS TRUST

Notes to Consolidated Financial Statements

Year ended March 31, 2010

Islands Trust (the "Trust") is incorporated under the Islands Trust Act of British Columbia (as amended). The object of the Trust is to preserve and protect the Trust area and its unique amenities and environment for the benefit of the residents of the Trust area and of the Province generally.

1. Significant accounting policies:

The consolidated financial statements of Islands Trust are prepared by management in accordance with Canadian generally accepted accounting principles as recommended by the Public Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants. Significant accounting policies adopted by the Trust are as follows:

(a) Reporting entity:

The consolidated financial statements include a combination of all the assets, liabilities, revenues, expenses, and changes in fund balances and in financial position of the trust council and the local trust committees.

The Trust occasionally conducts work on behalf of development applicants on a cost-recovery basis. These trust activities are not included in the consolidated financial statements.

(b) Basis of accounting:

The Trust follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

Government transfers are recognized in the consolidated financial statements as revenues in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

Revenue unearned in the current period is recorded as deposits or deferred revenue.

(c) Cash equivalents:

Cash equivalents include short-term highly liquid investments with a term to maturity of 90 days or less at acquisition. Investments in the Municipal Finance Authority of British Columbia ("MFA") Bond, Intermediate and Money Market Funds are recorded at cost plus earnings reinvested in the funds.

1. Significant accounting policies (continued):

(d) Employee future benefits:

The Trust and its employees make contributions to the Public Service Pension Plan, which provides benefits directly to employees upon retirement. These contributions are expensed as incurred.

A gratuity is also available to employees upon retirement. The cost of this benefit is actuarially determined based on periods of service and best estimates of retirement ages and expected future salary increases. The obligation under this benefit is accrued on projected benefits as the employees render services necessary to earn the future benefit.

(e) Non-financial assets:

Non financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets, excluding land, are amortized on a straight line basis over their estimated useful lives as follows:

Asset	Useful life - years
Furniture and equipment	5
Computers	3
Leasehold improvements	5 - 10

Amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

(ii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as revenue.

1. Significant accounting policies (continued):

(e) Non-financial assets (continued):

(iii) Works of art and historical treasures

Works of art and historical treasures are not recorded as assets in these financial statements.

(iv) Interest capitalization

The Trust does not capitalize interest costs associated with the acquisition or construction of a tangible capital asset.

(v) Leased tangible capital assets

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(f) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in estimating provisions for accrued liabilities, and in performing actuarial valuations of employee future benefits.

In addition, the Trust's implementation of the Public Sector Accounting Handbook PS3150 has required management to make estimates of historical cost and useful lives of tangible capital assets.

Actual results could differ from these estimates.

2. Change in accounting policy:

The Trust has implemented PSAB sections 1200 Financial Statement Presentation and 3150 Tangible Capital Assets. Section 1200 establishes general reporting principles and standards for the disclosure of information in government financial statements. Section 3150 requires governments to record and amortize their tangible capital assets in their financial statements. In prior years, all tangible capital asset additions were recorded as expenditures, and then were set up as capital assets in the statement of financial position. The capital assets were not amortized.

Methods used for determining the cost of each major category of tangible capital assets

The financial information recorded includes the actual or estimated historical cost of the tangible capital assets. When historical cost records were not available, other methods were used to estimate the costs and accumulated amortization of the assets. The Trust applied a consistent method of estimating the replacement or reproduction cost of the tangible capital assets for which it did not have historical cost records.

This change has been applied retroactively and prior periods have been restated. This change in accounting policy has changed amounts reported in the prior period as follows:

	2010
Accumulated surplus at April 1, 2008:	
General Revenue Fund	$ 1,192,903
Capital Fund and equity in capital assets	1,167,481
Accumulated surplus, as previously reported	2,360,384
Change in net book value of tangible capital assets	(1,026,975)
Accumulated surplus, as restated	$ 1,333,409
Annual surplus for 2009:	
Net revenues, as previously reported	$ 288,589
Assets capitalized but previously expensed	50,485
Amortization expense not previously recorded	(44,067)
Capital lease payments previously expensed	3,176
Annual surplus, as restated	$ 298,183
Accumulated surplus, at March 31, 2009, as restated	$ 1,631,592

3. Cash and cash equivalents:

	2010	2009
Bank account balances	$ 601,148	$ 424,612
MFA Bond Fund	659,950	-
MFA Intermediate Fund	1,784,231	-
MFA Money Market Fund	374	2,638,532
	$ 3,045,703	$ 3,063,144

4. Accounts receivable:

	2010	2009
Opening balance - cost recoveries	$ 1,033	$ 7,625
Expenses for the year	9,189	14,345
Cash received in the year	(21,322)	(20,937)
Closing balance - cost recoveries	(11,100)	1,033
Accounts receivable - other	53,839	82,229
	$ 42,739	$ 83,262

5. Deferred revenue:

Deferred revenue is comprised of the following:

	2010	2009
Strategic Community Investment Fund grant	$ -	$ 234,313
Other grants	44,044	45,248
	$ 44,044	$ 279,561

6. Employee benefit obligations:

The Trust provides sick leave and certain other benefits to its employees.

	2010	2009
Vacation	$ 101,175	$ 107,792
Compensatory time off	30,586	16,771
Accrued retirement allowance	85,690	95,478
	$ 217,451	$ 220,041

Vacation and compensatory time off represent the liability for accumulated banks for draw down at future dates and/or for payout either on an approved retirement, or upon termination or death. Accrued retirement allowance represents the Trust's share of the cost to provide employees with certain retirement allowances in the year of retirement, which were estimated by an actuarial valuation.

The significant actuarial assumptions used in measuring the Trust's accrued retirement allowance are as follows:

	2010	2009
Discount rate for present value of future benefits	6.00%	6.00%
Expected future inflation rates	3.00%	3.00%
Expected wage and salary increases	2.00% - 3.00%	2.00% - 3.00%

Other pension plans

The Trust and its employees makes contributions to the Public Service Pension Plan (the "Plan"), a jointly trusteed pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The Plan has about 53,000 active members and approximately 33,000 retired members.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and adequacy of Plan funding. The most recent valuation as at March 31, 2008 indicated an unfunded liability of $487,000,000 for basic pension benefits. The next valuation will be as at March 31, 2011, with results available in 2012. The actuary does not attribute portions of the surplus to individual employers. The Trust paid $219,900 (2009 - $186,571) for employer contributions to the plan during the year.

7. Obligations under capital leases:

The amounts due for obligations under capital leases are as follows:

		2010
2011	$	13,924
2012		11,876
2013		11,026
2014		9,318
2015		9,318
2016		1,812
Total minimum lease payments		57,274
Less amounts representing interest (at rates ranging from 2.25% to 6.25%)		5,511
Present value of net minimum capital lease payments	$	51,763

Interest of $875 (2009 - $572) relating to capital lease obligations has been included in expenses on the consolidated statement of financial activities.

8. Tangible capital assets:

	Denman Island Site	Furniture and equipment	Computers	Leasehold improvements	Total 2010	Total 2009
Cost:						
Balance, beginning of year	$ 10,000	$ 49,528	$ 58,255	$ 215,572	$ 333,355	$ 291,945
Additions	-	45,791	-	9,896	55,687	50,485
Disposals	-	-	-	-	-	(9,075)
Balance, end of year	10,000	95,319	58,255	225,468	389,042	333,355
Accumulated amortization:						
Balance, beginning of year	10,000	21,709	25,471	114,383	171,563	136,571
Disposals	-	-	-	-	-	(9,075)
Amortization expense	-	9,761	16,031	24,388	50,180	44,067
Balance, end of year	10,000	31,470	41,502	138,771	221,743	171,563
Net book value, end of year	**$ -**	**$ 63,849**	**$ 16,753**	**$ 86,697**	**$ 167,299**	**$ 161,792**

Contributed tangible capital assets:

Contributed capital assets have been recognized at fair market value at the date of contribution. The value of contributed assets received during the year is $nil (2009 - $nil).

In fiscal 1994, the Denman Island Ratepayers' Association donated $10,000 which was used by the Trust to purchase the Denman Island Old School Site from School District #71. The Trust agreed to facilitate the sale of the school site between School District #71 and the Ratepayers' Association and to hold title to the property on behalf of the community. The Denman Island Ratepayers' Association has leased the building on the site from the Trust for 99 years for a total fee of $10.

9. Accumulated surplus:

Accumulated surplus consists of:

	2010	2009
Invested in tangible capital assets	$ 115,536	$ 150,100
General Revenue Fund	1,579,860	1,481,492
	$ 1,695,396	$ 1,631,592

10. Budget data:

The unaudited budget data presented in these financial statements is based upon the 2010 operating budget approved by Trust Council. Amortization was not contemplated on development of the budget and, as such, has not been included. The following reconciles the approved budget to the budget figures reported in these financial statements.

	Budget amount
Operating budget:	
Revenues	$ 6,451,365
Expenses	(6,313,034)
Budgeted surplus	138,331
Appropriation from surplus	(142,000)
Capital expenses	77,000
Annual surplus	$ 73,331

11. Classification of expenses by object:

	2010	2009 (Restated - note 2)
Salaries and benefits	$ 3,496,406	$ 3,072,762
Traveling/training and recruitment	158,543	254,252
Council and trustee costs	596,201	612,954
Office operations	935,889	830,696
Programs	553,561	445,012
Legal	345,154	351,977
Elections	-	96,049
Amortization	50,180	44,067
Total expenses by object	$ 6,135,934	$ 5,707,769

12. Commitments:

Minimum annual lease payments:

The Trust is committed to leases over rented premises. Minimum future payments in the next five years are as follows:

2011	$ 282,861
2012	191,744
2013	49,196
2014	48,530
2015	48,530

13. Contingent liabilities:

In the normal course of a year, claims for alleged damages are made against the Trust. Costs, if any, are recorded when a liability is likely and reasonably determinable.

14. Trust activities:

(i) Trust fund under administration

The Trust administers The Islands Trust Fund (the "Fund") which is related through the composition of the Fund's Board. The Fund is empowered to accept donations, grants and bequests on behalf of the Trust and to hold land and other property in compliance with a plan approved by the Ministry of Community and Rural Development. The Fund's Board is comprised of three members from Trust Council and up to three members appointed by the Minister of Community and Rural Development.

For financial reporting purposes, the Trust and the Fund are reported on separately. These financial statements present the financial position and results of operations of the Trust.

The Fund's annual expenses are funded by and reported as part of the Trust in accordance with The Islands Trust Act. These expenses are summarized as follows:

	2010	2009
Programs	$ 443,480	$ 388,185
Board	17,355	13,038
Administration	126,506	110,320
	$ 587,341	$ 511,543

(ii) Third party trust funds:

The Trust administers trust activities on behalf of development applicants on a cost-recovery basis. The activities are as follows:

	2010	2009
Cash received during the year	$ 21,322	$ 20,937
Cash paid during the year	9,189	14,345

Included in accounts receivable are amounts receivable (payable) from development applicants of $(11,100) (2009 - $1,033).